2002-2003 BUDGET

Supplement to the Government's Budgetary Policy

Delivered before the National Assembly
by Pauline Marois,
Deputy Prime Minister
and Minister of State for the Economy and Finance,
on March 19, 2002.

Finances Québec

Supplement to the Government's Budgetary Policy
ISBN 2-551-21525-0
Legal deposit
Bibliothèque nationale du Québec, 2002
Publication date: March 2002
© Gouvernement du Québec, 2002

102-04137/

Supplementary Statement

Introduction 1

I. The Québec economy has withstood the slowdown well 3

(a) The right actions at the right time 3

(b) Growth forecasts maintained 4

II. Québec maintains a balanced budget 5

(a) Higher own-source revenue cancelled out by lower federal transfer payments 5

(b) Constant vigilance in spending management 6

III. New actions to strengthen social solidarity 9

(a) $300 million over three years for the fight against poverty 9

(b) Targeted income tax reductions averaging $222 for 780 000 households 10

(c) The prescription drug insurance plan: a social gain to be safeguarded 12

IV. Unwavering emphasis on developing the Québec economy ... 13

V. Federal policies that must be changed 16

(a) Looming cuts in transfer payments to the provinces 16

(b) Fiscal imbalance between Ottawa et Québec 18

Conclusion 20

Introduction

Madam President:

On November 1, 2001, almost five months ahead of the regular schedule, I tabled the 2002-2003 Budget Speech before the Québec National Assembly. It was an exceptional move in response to a situation that was also exceptional. Given the highly uncertain economic context, we decided to take action, and to do so rapidly, by mobilizing all of the means at our disposal to support economic activity and employment. Simultaneously, we made the decisions necessary to maintain a zero deficit this year and subsequent years as well.

The 2002-2003 Budget was not easy to draw up, if only because of the uncertainty about how the economic situation would evolve. We were of course dealing with imprecise data, since the 2001-2002 fiscal year was far from over. Moreover, measuring the exact economic impact of the dramatic events of September 11 was a rather risky undertaking.

Our swift action has produced results. The news I am announcing today is good news, first as concerns the state of the economy and employment. The Québec economy has withstood the turbulence remarkably well, and we are undeniably on the road to recovery.

I am tabling this Supplementary Statement today primarily to account for the results of our action to the Québec National Assembly and to the population as a whole. This Supplementary Statement confirms the soundness of our strategy. It stays the budgetary course that was set. It enables us to update the principal economic and financial data presented on November 1, 2001, so that the 2002-2003 Budget reflects reality as closely as possible.

This Supplementary Statement has another purpose. Being well on the way to achieving the objectives set, we can go a little further in implementing the government's policy directions. For three of these directions, I am announcing additional measures that reinforce priorities close to our heart.

— The first of these directions concerns support for the most underprivileged. We must do everything we can so that they, too, benefit from the anticipated economic growth. I am therefore taking advantage of this Supplementary Statement to introduce major initiatives in their regard.

— The second direction targets personal income tax. Our taxation system can be made even fairer. This Supplementary Statement contains new improvements to our taxation system that will directly benefit families, middle-income Quebecers and seniors.

— The third direction broadens and strengthens our actions on the economic front. The Québec economy has borne up remarkably well in this difficult context. Businesses have proven their vitality, and individuals have shown great confidence in how the situation would unfold. Our economy is more diversified and stronger than ever, and the government's voluntary economic policy is largely responsible for that. I am therefore taking advantage of this Supplementary Statement to reinforce the instruments that we have gradually brought in to stimulate growth and job creation, by targeting other sectors with vast potential.

This Supplementary Statement does, however, acknowledge a cloud on the horizon. The prevailing uncertainty is not caused by the world situation, but by Ottawa. As you know, the recent news from the federal government concerning the amount of its transfer payments to Québec has been worrisome. While significant cuts have been avoided in the short term, nothing has actually been resolved.

The report of the Commission on Fiscal Imbalance, released on March 7, goes to the heart of the issue of the financial arrangements between the two governments, in an analysis that is as rigorous as it is straightforward. I take this opportunity today to thank Yves Séguin and all of the members of the Commission for their outstanding work and their contribution to an issue that concerns all Quebecers.

The Commission's report takes the debate to an unparalleled level. I hope that the federal government itself will conduct a balanced, honest analysis of the issue. We are faced with a fundamental problem whose financial and fiscal implications I will be evoking today, because solutions must be implemented rapidly.

These are, Madam President, the essential elements of the Supplementary Statement I am tabling today.

I. The Québec economy has withstood the slowdown well

As everyone knows, we have just come through a period of great economic uncertainty.

At the outset, the experts had forecast slower growth for 2001. As the year advanced, the anticipated slowdown deepened. And, after the events of September 11, there was even a real danger that the slowdown would become a recession.

Our government moved rapidly to deal with this situation. On November 1, 2001, following consultations with the principal socioeconomic players, I announced an action plan designed to bolster consumer confidence and stimulate employment and economic growth. The AGIR plan, as it was called, stood for Immediate Government Action for Recovery.

(a) The right actions at the right time

First, we sought to sustain consumer confidence with a rapid injection of $400 million. We followed that up in December with an additional payment of $100 per adult to all recipients of the QST credit. This likely contributed to an increase in retail sales for December that was twice as high in Québec than in Canada. That measure was accompanied by an increase in social assistance benefits and the indexation of the taxation system, effective January 1, 2002.

We also adopted a plan to accelerate public-sector investments totalling $3 billion. I have to say today that the civil servants responsible for implementing that plan have done so with remarkable speed. I wish to congratulate them, in particular the coordination team, for their unstinting efforts. Only four months after the tabling of the Budget, more than 1 200 construction, renovation, expansion and equipment-acquisition projects have been approved. A total investment of $2.2 billion and the creation of 16 300 direct jobs will result. Work totalling over $1 billion will be undertaken before July 1.

The projects selected to date will improve the services provided to Quebecers in a number of ways. In particular, they will make emergency services more accessible, improve the quality of life of persons in residential care and upgrade hospital equipment. They will open up another 1 750 places for university students in leading-edge sectors and an additional 900 places for vocational students. They will also make it possible to upgrade thousands of kilometres of road, renew several water supply and sewage systems, build or renovate thousands of dwellings and immediately begin building early childhood centres to open up 4 000 new spots.

In addition to improving the quality of services available to Quebecers, the AGIR plan will create and maintain thousands of jobs throughout Québec in the coming months.

(b) Growth forecasts maintained

Our offensive can be said to have been highly effective to date. The economy is now expected to grow 0.6% in the fourth quarter of 2001. Thus, we will have warded off a recession in 2001, and economic growth in Québec for the year will likely have been 1.1%, as projected in November.

Job creation has been outstanding. Since June, 63 000 jobs have been created in Québec—more than in the rest of Canada.

Economic growth should pick up speed in 2002, in line with the recent good results. A number of current indicators allow us to be even more optimistic about Québec today.

The household confidence index is up nearly 30% from October 2001. Retail sales are on the rise, and the number of housing starts is very high. Exports have improved and, thanks to our public investment acceleration plan, investment intentions for 2002 are progressing more rapidly in Québec than in the rest of Canada.

In the Budget tabled in November 2001, I had forecast 1.7% economic growth in Québec in 2002, based on the assumption that the AGIR plan would boost projected growth from 1.0% to 1.7%. Results observed since that time confirm that we are on the right track. I am therefore reiterating my forecast of 1.7% economic growth in Québec in 2002.

II. Québec maintains a balanced budget

(a) Higher own-source revenue cancelled out by lower federal transfer payments

When I tabled the 2002-2003 Budget before this Assembly on November 1, 2001, I reaffirmed the Québec government's determination to maintain a balanced budget not only in 2001-2002, but in 2002-2003 and subsequent years as well. The Supplementary Statement I am presenting today bears witness again to our unshakable resolve in this regard.

Since the start of 2002, our tax revenues have been slightly higher than anticipated. If this trend continues, we will have another $586 million in own-source revenue for the 2001-2002 and 2002-2003 fiscal years. Added to that is a reduction of $192 million in debt service.

In short, we could have had an extra $778 million over two years at our disposal with which to better meet the health and education needs of Quebecers, and the needs of young people, families and seniors.

Unfortunately, these additional amounts will be used to offset the reductions in federal transfer payments, particularly the cuts to equalization payments. Transfer payments will be reduced by $373 million in 2001-2002 and by $405 million in 2002-2003.

For the most part, these adjustments are the direct result of the logic underlying the program, which, to all intents and purposes, constitutes a tax on development. The amounts paid to us depend on the disparities in wealth between the provinces of Canada. It follows that, when Québec increases its wealth, it is automatically penalized with regard to the equalization payments it receives. I hope that we will reflect collectively on this worrisome problem.

It should be pointed out that, as of 2003-2004, the matter of federal transfer payments will become even more disquieting. If nothing is done, we will find ourselves having to absorb the deferred impact of the $840-million cut in equalization payments that we recently learned would be made. This cut stems from a change by the federal government in the method for calculating fiscal capacity with regard to property tax. We might even have to absorb other cuts, depending on federal decisions. I will come back to these issues later.

(b) Constant vigilance in spending management

Given what I have just explained, vigilance in managing public spending is even more crucial now to maintaining a balanced budget.

For the 2001-2002 fiscal year, we are resolutely staying the course as regards the program spending target I announced before this Assembly on November 1, 2001.

In a few days, my colleague the Minister of State for Administration and the Public Service and Chair of the Conseil du trésor will table before this Assembly the Estimates for the 2002-2003 fiscal year, which is less than two weeks away. I congratulate him and his predecessor for meeting the spending target set in March 2001 and reiterated in November 2001.

At the time, I indicated that meeting that target would be a sizeable challenge, but that I was relying on the cooperation of all my Cabinet colleagues to ensure a successful outcome. I sincerely thank them all for having willingly shouldered the task.

This Supplementary Statement demonstrates once again our firm commitment to maintaining balanced public finances not only in 2001-2002, but in 2002-2003 and subsequent years as well. The new budgetary forecasts I am tabling today are tangible proof of this.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS[1]
(in millions of dollars)

	2000-2001	2001-2002	
	Actual results	Budget Speech 2001-11-01	Preliminary results
Budgetary transactions			
Own-source revenue	42 895	40 336	40 806
Federal transfers	8 145	9 660	9 287
Total revenue	51 040	49 996	50 093
Operating expenditure	– 42 057	– 43 544	– 43 671
Debt service	– 7 606	– 7 402	– 7 372
Total expenditure	– 49 663	– 50 946	– 51 043
Budgetary reserve			
Amounts allocated to the reserve	– 950	—	—
Use of amounts allocated to the reserve			
To finance expenditure	—	280	280
To maintain a balanced budget	—	670	670
Budgetary surplus after reserve	**427**	**0**	**0**
Non-budgetary transactions			
Investments, loans and advances	– 1 632	– 1 317	– 1 088
Capital expenditures	– 473	– 691	– 911
Retirement plans	1 793	1 987	2 042
Other accounts	– 631	– 686	– 698
Non-budgetary requirements	**– 943**	**– 707**	**– 655**
Net financial surplus (requirements)	**– 516**	**– 707**	**– 655**
Financing transactions			
Change in cash position[2]	– 473	941	578
Change in direct debt[2]	3 008	2 032	3 225
Retirement plans sinking fund	– 2 019	– 2 266	– 3 148
Total financing of transactions	**516**	**707**	**655**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 On the basis of the 2002-2003 budgetary and financial structure.

2 The preliminary results for 2001-2002 take into account borrowings of $1 178 million made in advance, whereas the actual results for 2000-2001 include $1 475 million in borrowings made in advance.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS[1]
REVISED 2002-2003 FORECAST
(in millions of dollars)

Budgetary transactions	
Revenue	51 907
Expenditure	– 51 907
Budgetary surplus (deficit)	**0**
Non-budgetary transactions	
Investments, loans and advances	– 1 661
Capital expenditures	– 1 674
Retirement plans	1 975
Other accounts	488
Non-budgetary requirements	**– 872**
Net financial surplus (requirements)	
Consolidated Revenue Fund	500
Consolidated organizations	– 1 372
	– 872
Financing transactions	
Change in cash position	2 044
Change in direct debt	1 593
Retirement plans sinking fund	– 2 765
Total financing of transactions	**872**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 On the basis of the 2002-2003 budgetary and financial structure.

III. New actions to strengthen social solidarity

In recent years, our government has stepped up efforts to help Québec take its rightful place in the new world economic order, and to ensure that each and every Quebecer benefits fully from this heightened prosperity.

We plan to continue building on the values of social solidarity held by Quebecers. In June 2001, the Québec government launched a vast campaign to devise a national strategy for the fight against poverty. The Minister of State for Social Solidarity and Child and Family Welfare, together with the Minister for the Elimination of Poverty and Exclusion, are currently working on this strategy. This Supplementary Statement announces major initiatives in this regard.

(a) $300 million over three years for the fight against poverty

In the past few years, we have carried out a number of actions in order to combat the poverty in which too many Quebecers live. The measures announced for the most disadvantaged Quebecers in the two previous budgets alone represent more than $1 billion over three years. Moreover, in December 2001, we paid an additional $100 per adult to all recipients of the QST credit. Our goal was to help low-income individuals, given the context of economic uncertainty at that time.

We must do more along these lines. In this Supplementary Statement, I am announcing three new initiatives in support of our strategy to fight poverty. They will total $300 million over the next three years, thereby bringing our efforts during that period to nearly $1.4 billion.

Guaranteed indexation for the 360 000 households on social assistance

First of all, I am particularly proud to announce that, henceforward, all social assistance benefits will automatically be indexed annually, at the rate of inflation. In a spirit of greater social solidarity, indexation will apply to all social assistance recipients. In this way, we are protecting the purchasing power of those who depend on the financial support of the government for their most essential needs.

As a reminder, in an effort to deal with this problem, we had previously adopted at the 1996 Montréal Summit a policy of automatic indexation for all persons with a severely limited capacity for employment. From now on, the 360 000 households on social assistance will benefit from this comprehensive protection of their purchasing power.

Enhanced social assistance for housing

Secondly, I wish to provide today further assistance to income security recipients attempting to improve their lot. As you know, we have already committed to paying the full benefit to persons who share their dwelling. I am announcing today that we will now act on that commitment. As of January 1, 2003, the reduction in the benefit for sharing a dwelling will be eliminated.

Similarly, I believe that we should provide more substantial support to persons whose lodging costs less than the minimum established under the social assistance program. We will therefore also eliminate the so-called "housing test" as of January 1, 2003.

I am particularly pleased to affirm that the elimination of these two provisions will mean a gain of $52 million a year for the households in question. This is over and above what I announced in the November 1, 2001 Budget Speech—namely, that we would invest close to $500 million in the next five years to build or renovate 40 000 dwellings.

Implementation of the community action recognition and support policy

In July 2001, the government adopted the community action recognition and support policy. The objective of the policy is to support community organizations working with, for example, the homeless, drug addicts, older persons or battered women.

Implementation of the policy began in September 2001, and will continue during 2002-2003. For this purpose, I am confirming today an additional $20 million in each of the 2002-2003 and 2003-2004 fiscal years.

(b) Targeted income tax reductions averaging $222 for 780 000 households

In this Supplementary Statement, I also wish to take action with regard to the personal income tax system.

Substantial income tax reductions granted since 2000

The personal income tax reductions granted in the 2000-2001 and 2001-2002 budgets were the largest in the history of modern Québec and represent a major turning point in our taxation system.

These tax cuts significantly eased the tax burden of Québec taxpayers. They are equivalent to a total reduction of 20% in the income tax payable for 2002, which represents a saving of $1 410 per household. Over the five fiscal years—that is, from 2000-2001 to 2004-2005—taxpayers will have recovered $15 billion they will be able to devote to meeting their needs.

Moreover, as a reminder, Québec taxpayers saw the personal income tax system indexed by 2.7% on January 1, 2002.

New targeted relief

To further lighten the tax burden of Québec taxpayers, I am announcing another improvement to the taxation system, to take effect as of the 2003 taxation year.

First of all, all couples will be able to take full advantage of the tax credits available under the system. Thus, all individuals will be able to transfer to their spouse the portion of their tax credits they do not need to reduce their income tax to zero. This change will be advantageous for more than 250 000 couples and families in which one of the spouses has a lower income. In particular, it will benefit families in which one of the spouses works part time in order to balance family responsibilities and work.

I also wish to meet some of the needs expressed to me by many Quebecers. Thus, several new deductions and credits will be added to those already available under the simplified tax system. In particular, as a result of these adjustments, 40 000 households will be able to derive greater benefit from the deduction for support payments, while 260 000 households will benefit more from the tax credit for medical expenses. Furthermore, we will help taxpayers in the Îles-de-la-Madeleine and Basse-Côte-Nord regions, as well as in the northern regions: from now on, 14 000 households living in these regions will be able to take advantage of the deductions for remote areas more easily.

These improvements are described in more detail in the *Additional Information* document, which is an integral part of this Supplementary Statement.

A targeted tax cut of $172 million

As a result of the measures announced today, the tax burden of approximately 780 000 households will be further eased, leaving them with an extra $172 million in their pocket—an average of $222 per household.

Of these 780 000 households, couples, seniors and the middle class in particular will benefit from the measures announced today. Thus, 160 000 households composed of seniors will see an average tax saving of $280 a year. Similarly, 240 000 couples with children will benefit an average of $242.

(c) The prescription drug insurance plan: a social gain to be safeguarded

There is currently a good deal of discussion about one of the social programs Québec is responsible for. I am referring to the basic prescription drug insurance plan—an essential element of the public's social safety net. In January 1997, our government undertook a major initiative in this regard, with all Quebecers now being guaranteed access to drugs under the plan.

This universal guarantee is a social gain that we must safeguard, despite the rising costs currently facing all industrialized nations. Like them, we must seek the means necessary to guarantee accessibility to drugs in the short and medium term, at costs acceptable both to individuals and to society as a whole. To that end, my colleague the Minister of State for Health and Social Services will soon table a discussion paper proposing solutions aimed at ensuring the sustainability of the plan.

IV. Unwavering emphasis on developing the Québec economy

The success we are having today in creating jobs is in large part due to the policies to diversify and overhaul the Québec economy that our government has unwaveringly pursued since coming to power.

For example, the Prime Minister, with his characteristic tenacity and determination, managed to break a profound impasse in signing the "Peace of the Braves" agreement with Grand Chief Ted Moses of the Grand Council of the Crees. This historic agreement between our two peoples has paved the way for a new era of cooperation founded on mutual respect, dialogue and trust. The agreement will enable us to undertake, in partnership with the first inhabitants, a new phase in the economic development of the James Bay region. The startup of the Eastmain-Rupert complex and the development of the territory's full potential will undoubtedly lead to the creation of numerous jobs, thereby restoring hope to a whole generation of Cree youth.

Clearly, we must continue our efforts to develop the economy. I am announcing today additional measures to that end. These measures have three main focuses:

— support regional development;

— intensify the transition to a knowledge-based economy;

— modernize the operation of the financial sector.

Stronger regional economies: positive results

First, we will continue our efforts to strengthen the regional economies. In March 2001, we announced our economic development strategy for the resource regions. The national policy on rurality followed soon afterward. In October 2001, the "Rendez-vous de mi-parcours" of the Québec agriculture and agri-food forum was held.

For example, we have already granted more than one-third of the budgetary envelope for the resource regions strategy; as a result, over $300 million in investments have been made to date, or are about to be made. They will lead to the creation of nearly 3 000 jobs and to the maintenance of 2 000 others.

The FAIRE program and the tax holiday for major projects have bolstered interventions by our government in the regions. The Gaspésia mill in Chandler, the Alcan projects in the Saguenay, the Alouette aluminum smelter in the Côte-Nord region, the Kruger paper mill in the Mauricie region, and the Cargill plant in the Montérégie region are just some examples that come to mind.

Despite this good news and the results obtained, we must continue our efforts in regions such as the Gaspésie. While the measures introduced under the resource regions strategy still apply, we must do more. I am therefore announcing today that another $8 million will be allocated to the Gaspésie region for the next two years. These additional funds will be used, notably, to support tourism development and diversification of the Gaspésie region's economy.

Intensify the transition to a knowledge-based economy

Québec's situation has improved considerably in recent years, in large part thanks to the successful transition to a knowledge-based economy. The results obtained are most impressive. Québec alone accounts for nearly 50% of Canada's high-tech exports.

Great success stories

Three sectors of activity stand out in particular:

— In the information technology sector, over 4 000 businesses employ more than 100 000 persons. The Cité du multimédia will attain the objective of 10 000 jobs as of 2004, five years ahead of schedule.

— Our aerospace industry now ranks sixth in the world. Montréal has become the world's second-largest aerospace centre, after Seattle and before Toulouse.

— The pharmaceutical industry is another example of the successful transition to the knowledge-based economy, representing 42% of jobs and investments in this sector in Canada.

A promising new field: biotechnology

The biotechnology sector is currently one of the fields of the knowledge-based economy with the most potential. According to certain projections, the world market for biotechnology-related goods and services should grow at least 30% annually over the next few years. Montréal is the eighth-largest biopharmaceuticals centre in North America, and three world-class clinical research centres are located in Québec.

To maintain our advance and take full advantage of this strategic development niche, I am announcing three significant measures today:

— A new loan program, called Bio-Levier, will enable Investissement Québec to match investments by private investors.

— Two new biotechnology development centres, one in Sherbrooke and one in Saint-Hyacinthe, will be specialized in life sciences and the agri-food and veterinary sectors respectively.

— Lastly, we will create a new functional foods and nutraceuticals development centre in the Québec City area.

New tax credit for innovation

The new economy centres (CNEs) now present in all regions of Québec are another example of the success of our initiatives. In fact, in November 2001, we further increased the available floor space. CNEs have developed new innovation networks in, for example, the materials, information and production technologies.

Support for innovation in the most promising sectors of the knowledge-based economy must be stepped up, while also facilitating the expansion of businesses in the Montréal and Québec City areas. To that end, I am announcing the introduction of a new tax credit for innovation, which will be of benefit to the Parc technologique de Québec, Technoparc St-Laurent and Technopôle Angus.

Support for technology showcases

The Technology Showcase Assistance Program, instituted in 1998, has proven its effectiveness by making it possible to demonstrate our innovative products and processes in real situations. To date, it has been used to fund projects that will create 2 600 jobs. This Supplementary Statement therefore immediately allocates an additional envelope of $15 million to the program.

Modernize the operation of the financial sector

The financial sector is Québec's third-largest industry and represents nearly 14% of its economic activity. Financial products and services have proliferated in recent years, presenting a challenge to both consumers and and the bodies responsible for regulating the industry. It is therefore important to modernize the operation of this sector, in order to optimize consumer protection and strengthen Québec leadership in this field.

In December 2001, I received the unanimous recommendations of the task force chaired by Mtre. Yvon Martineau, whom I applaud, as well as his colleagues, for the depth of their analysis and their excellent work. I then met with the heads of the regulatory bodies in the financial sector, to obtain their comments on the directions proposed in the report. The creation of a one-stop service for both consumers and the industry, as well as the repositioning of the Québec financial industry on the North American market, are essential. I plan to follow up on these recommendations by proposing the creation of the Agence nationale d'encadrement du secteur financier. I will soon table a bill to that end.

I will act on the directions proposed by the task force, integrating certain adjustments that take into account the specificity of the practices of Québec professioals in the insurance sector.

V. Federal policies that must be changed

This, then, is what our national government has been able to accomplish with the limited means currently at its disposal. We have been able to maintain a zero deficit, despite the economic slowdown, provide tax relief, stimulate growth, create jobs and improve the quality of life of Quebecers. However, this positive situation is overshadowed by certain federal policies on financial transfer payments that absolutely must be changed.

(a) Looming cuts in transfer payments to the provinces

The first set of problems stems from looming cuts in the equalization program. In this regard, we have had our share of bad news in the past few weeks.

A change of method costing us $840 million

First, on February 26, the federal government informed us of its decision to cut our equalization payments further to a change it was making to the method for calculating one of the variables used to measure the provinces' fiscal capacity with regard to property taxes. The amount involved is $840 million. I will not dwell on the surrealist nature of this incident, or on the absurdity of a method of operation whereby payments, sometimes involving significant amounts, are dependent on arcane, wholly artificial calculations.

It is, however, important to measure the actual impact of the federal cuts. We were to have borne half the $840-million reduction as of this year, that is, the fiscal year ending in ten or so days, with the remainder of the cuts to take effect in 2002-2003 and 2003-2004. That announcement raised such an outcry that my federal colleague, in a gesture of openmindedness, yielded to some of my arguments and decided to defer the impact of the cuts to 2003-2004. But nothing has actually been resolved, since the federal government still plans to make the cuts.

Property assessment rolls: the only true indicator of fiscal capacity

The revenue loss of which we were recently informed is compounded by an even more fundamental problem in the calculation of equalization payments with regard to property taxes.

Ever since Gérard D. Levesque, Québec has been requesting that the federal government use the property assessment rolls for buildings and residences to measure fiscal capacity with regard to property taxes. However, the federal government has been using, since 1987, a set of arbitrarily selected variables that heavily penalize Québec.

In this regard, I have no choice but to express my concern over my federal counterpart's suggestion that we submit the matter to Statistics Canada. As I have just explained, the real problem lies in the definition of the current tax base. The federal finance minister is clearly the only person who can really enable us to settle this matter once and for all, and I plan to put all my energy into convincing him that my arguments are well-founded. I am tabling today a document that explains these questions in detail.

A federal error that could destabilize all governments

The bad news about federal transfers did not stop with the property tax problem. On January 29, the federal government announced that, since 1972, it had been making, year after year, a major error in the payments of the personal income tax it collects on behalf of the other provinces in Canada.

As a result, for the period from1993 to1999 alone, it overpaid $3.3 billion to Ontario, Manitoba, British Columbia and Alberta. This error was repeated in 2000 and, according to our estimates, the miscalculation for the period from 1993 to 2000 would amount to $4.5 billion. The federal government is still calculating the figures for the years from 1972 to 1992, but the total will clearly be significant.

At first glance, Québec did not appear to be directly affected by this error, since we collect our own income tax. However, that was before consideration was given to the impact that the miscalculation would have on equalization payments.

It seems that the federal government wants to recover, as well, the equalization amounts overpaid as a result of its error. Some catastrophic numbers have been circulating. The loss to Québec could be as high as $1 billion for the period from 1972 to 2000. If the federal government were to take that tack, the finances of the provinces would be profoundly destabilized.

The situation is completely divorced from reality. Québec would be forced to cut public services because of errors made by the federal government, whereas the selfsame federal government currently enjoys sizeable budget surpluses.

There is actually another way to resolve the problems stemming from the federal government's error. Ottawa could take responsibility for its mistake, forgo collecting the income tax overpaid, and introduce a compensation mechanism so that all provinces would receive comparable treatment. For the period from 1993 to 2000, for example, this solution would mean that the federal government would pay compensation totalling $4.4 billion in Canada as a whole, $1.6 billion of which would go to Québec. What happened from 1972 to 1992 will also have to be taken into account when the data become available.

Not only is the solution I am proposing the fairest way to rectify an error for which we are not in the least responsible, but it is the only one that will not destabilize our budgets. I submitted this proposal to my federal counterpart. I also stressed how difficult it was to imagine that, at a time when the federal government is accumulating surpluses, it would throw Québec and the other provinces into a deficit situation in order to correct an error it has been making for 30 years.

Clearly, a veritable sword of Damocles hangs over the Québec government's financial framework concerning the calculation of fiscal capacity with regard to property taxes in equalization payments and to the rectification of the federal error in the collection of income tax since 1972. If the federal government were to make the wrong choices, transfers to Québec could be reduced by a total of $1.8 billion. Ottawa would plunge us into deficit, an eventuality that I consider completely unacceptable.

(b) Fiscal imbalance between Ottawa et Québec

The problems I have just outlined concerning the calculation of federal transfer payments coincide with the tabling of the report by the Commission on Fiscal Imbalance, which has garnered broad support in Québec. The report, through the very rigor with which it was prepared and its straightforwardness, presents a devastating analysis of intergovernmental financial relations within Canada.

The Séguin report is in no way an indulgent or ideological analysis. It is an objective, rational demonstration of a fiscal imbalance that clearly reflects the dysfunction of the current federal system.

The Commission gave precise answers to the questions put to it. Fiscal imbalance does indeed exist, to the detriment of Québec and the other provinces, and this imbalance constitutes a major dysfunction within the federal system. According to the Conference Board of Canada's forecasts carried out for the Commission, if nothing is done, we are heading toward a situation characterized by the near-explosive growth of federal surpluses, while Québec's budgetary situation will remain precarious. The provinces are subjected to severe spending pressures, while the distribution of revenue is to the federal government's advantage: need we say more?

The Commission goes much further, however, taking aim at the inadequateness of intergovernmental transfer payments, particularly the Canada Health and Social Transfer, and, from a broader perspective, at what is known as "federal spending power".

The Séguin report is implacable in its description of the consequences of the existing fiscal imbalance: the provinces do not have at their disposal all of the resources required to adequately meet the needs of the public in such areas as health and education. In public hearings, the Commission on Fiscal Imbalance listened to the testimonies of many groups on the direct impacts of the fiscal imbalance on the provision of services to Quebecers.

On an even more fundamental level, respect for our decision-making and budgetary autonomy is at stake, as forcefully stressed by the Séguin Commission. What we are in fact talking about is our capacity, as Quebecers, to make our own choices in the areas of health, culture, education and social security—in short, our areas of jurisdiction under the Constitution.

The Commission presented a series of recommendations in response to the problems identified. It advocates granting adequate financial means to the provinces. To that end, it demands a new division of taxation fields, stressing how advantageous it would be for the provinces to have exclusive occupation of the GST field.

In the coming weeks, I plan to sensitize my colleagues in the other provinces to the analysis and conclusions of the Séguin Commission. We have already had the subject put on the agenda of the finance ministers' conference in April.

Moreover, to ensure systematic monitoring of the various facets of fiscal imbalance, and to act on one of the recommendations of the Séguin Commission, I will henceforth table before the National Assembly an annual report on the matter.

Whether or not the other recommendations of the Commission are implemented depends on the federal government. To break the present impasse, we need a strong Québec-wide consensus. This consensus already exists, judging by the reactions of the various parties represented at the Québec National Assembly. We now have to take concrete action, in the higher interest of Quebecers. It is up to all of us to defend the interests of Québec tirelessly and effectively.

Conclusion

In recent months, the Québec government has had to cope with an exceptional and difficult economic situation. And we moved rapidly to take the actions necessary to cope with it.

We see now that those actions have enabled us to mitigate the effects of the economic slowdown and to stay the course on our fundamental objectives. These positive results enable us today to go even further. Thus, we have managed to maintain a zero deficit. We are continuing the fight against poverty by taking major initiatives on behalf of the most underprivileged Quebecers. We are implementing further action to promote job creation and economic growth.

The same determination will be required to solve the problems Québec is experiencing in its financial relations with Ottawa. The way in which Canadian federalism currently functions is threatening the Québec government's capacity to provide Quebecers with the public services it needs, notably as concerns health.

We must take swift action in this regard as well, instead of imagining, as some do, that things will work themselves out in time. The Séguin report calls on us now, and it is now that we must take action. As the elected representatives of the people of Québec, we will do everything in our power to recover the amounts that are rightfully due Québec.

But beyond this battle that we must wage now, it is my firm conviction that the people of Québec can reach their full potential only by reclaiming all of the tools necessary to their development.

Until we succeed in democratically persuading Quebecers to make that choice, our team will continue to put the same passion into waging the battle undertaken over 30 years ago by René Lévesque for the progress of our society, and for the benefit of all Quebecers.

As Jean-Paul Riopelle, to whom we paid tribute yesterday for his love of life, thirst for beauty and appetite for freedom, so aptly said: "When I hesitate, I don't paint, and when I paint, I don't hesitate".

Thank you, Madam President.

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE
REVISED 2002-2003 FORECAST
(in millions of dollars)

Own-source revenue	
Income and property taxes	
Personal income tax	16 342
Contributions to the Health Services Fund	4 594
Corporate taxes[1]	4 350
	25 286
Consumption taxes	
Sales	7 938
Fuel	1 600
Tobacco	752
	10 290
Duties and permits	
Motor vehicles	678
Alcoholic beverages	156
Natural resources[2]	198
Other	156
	1 188
Miscellaneous	
Sales of goods and services	441
Interest	401
Fines, forfeitures and recoveries	359
	1 201
Revenue from government enterprises	
Société des alcools du Québec	515
Loto-Québec	1 356
Hydro-Québec	1 015
Other	329
	3 215
Consolidated organizations	1 885
Total own-source revenue	**43 065**
Federal transfers	
Programs	
Equalization	5 339
Canada Health and Social Transfer	2 455
EPF and other transfers related to fiscal arrangements	15
Other programs	655
Consolidated organizations	378
Total federal transfers	**8 842**
Total budgetary revenue	**51 907**

1 Includes tax on corporate profits, tax on capital and tax on premiums in lieu of the tax on capital for insurance companies, as well as the tax on telecommunications, gas and electricity.
2 Includes forest, mining and hydraulic resources.

GOUVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
REVISED 2002-2003 FORECAST
(in millions of dollars)

Operating expenditure	
Program spending	– 43 223
Consolidated organizations	– 1 490
Total operating expenditure	**– 44 713**
Debt service	
Consolidated Revenue Fund	– 6 497
Consolidated organizations	– 697
Total debt service	**– 7 194**
Total budgetary expenditure	**– 51 907**

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
REVISED 2002-2003 FORECAST
(in millions of dollars)

Investments, loans and advances	
Consolidated Revenue Fund	– 1 733
Consolidated organizations	72
Total investments, loans and advances	**– 1 661**
Capital expenditures	
Consolidated Revenue Fund	
Net investments	– 253
Depreciation	201
	– 52
Consolidated organizations	– 1 622
Total capital expenditures	**– 1 674**
Retirement plans	
Contributions	4 971
Benefits and other payments	– 2 996
Total retirement plans	**1 975**
Other accounts	
Consolidated Revenue Fund	386
Consolidated organizations	102
Total of other accounts	**488**
Total non-budgetary transactions	**– 872**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
REVISED 2002-2003 FORECAST
(in millions of dollars)

Change in cash position	
Consolidated Revenue Fund	1 178
Consolidated organizations	866
Total change in cash position	**2 044**
Change in direct debt	
Consolidated Revenue Fund	
New borrowings	3 998
Repayment of borrowings	– 2 911
	1 087
Consolidated organizations	
New borrowings	1 750
Repayment of borrowings	– 1 244
	506
Total change in direct debt	**1 593**
Retirement plans sinking fund	**– 2 765**
Total financing of transactions	**872**

N.B. : A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.